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Budget 2001

Canada's Economic and Fiscal Prospects

December 10, 2001

Canada

"Managing an economy through tough times means striking the right balance. This budget does that.... It builds on the strong fundamentals Canadians have worked so hard to achieve."

Finance Minister Paul Martin
2001 budget speech

Introduction

Canadians today face a period of significant economic uncertainty.

For the first time in 25 years, we find ourselves in the midst of a global economic slowdown, which has been made worse by the September 11 terrorist attacks on the U.S.

But Canada's fiscal and economic progress is helping us weather this storm and positioning us to take advantage of the recovery expected by private sector economists in the second half of 2002.

Budget 2001 gives Canadians a full accounting of the nation's finances. Among other things, it confirms:

- the Government will balance the budget this year and in each of the next two years; and
- the Government's commitment to protect the \$100-billion tax cut plan and the \$23.4-billion agreements for health care and early childhood development.

Economic and Fiscal Prospects

Canada has undergone a remarkable economic and fiscal turnaround in the past eight years. But the current period of global economic weakness is impacting on the Canadian economy and on the Government's finances.

"Canadians remember the hard choices of the 1990s as we worked to pull ourselves out of deficit. We will not play fast and loose with the finances of the nation."

Finance Minister Paul Martin
2001 budget speech

Based on the average of private sector economic forecasts:

- Canada's economy is predicted to grow by 1.3 per cent in 2001 and 1.1 per cent in 2002;
- an economic recovery is expected in the second half of 2002, reflecting the impact of lower interest rates and taxes, as well as the anticipated recovery in the U.S.; and
- economic growth is expected to rebound to 3.9 per cent in 2003.

Commitment to Balanced Budgets

The Government's strategy of sound fiscal management will help Canadians deal with the current economic uncertainty.

- despite the impact of the economic slowdown, the Government is forecasting a balanced budget for this year and balanced budgets or better in 2002-03 and 2003-04;
- for the first time in 17 years, Canada's net debt-to-GDP (gross domestic product) ratio will fall to below 50 per cent next year; and
- 75 per cent of the increase in program spending in 2001-02 is for health care, security, employment insurance and elderly benefits.

Canada's Contingency Reserve

Previously, the Government had set aside a Contingency Reserve of \$3 billion per year, with an additional amount for economic prudence, to cover risks that could arise from unforeseen circumstances.

The global economic slowdown and the September 11 terrorist attacks have created exceptional fiscal pressure. As a result, the Government will not set aside any economic prudence and will use part of the Contingency Reserve this year and the next two years.

- For 2001-02, the Contingency Reserve is set at \$1.5 billion, rising to \$2.0 billion in 2002-03 and \$2.5 billion in 2003-04.



In addition, the Government believes that paying down debt is not appropriate in the current economic circumstances. Therefore, any surplus at the end of the 2001-02 fiscal year will be used for the Government's commitment to its Strategic Infrastructure Foundation and the Africa Fund.

Strategic Investments and Economic Stimulus

The Government remains committed to its overarching goals of building a strong economy and a secure society.

Not only does this budget confirm that the funding for the health accord and the tax reduction plan are protected, but it commits significant new resources to strategic investments in our future. These include:

- \$7.7 billion over the next five years to enhance personal and economic security for Canadians, including initiatives to improve the efficiency and security of our borders;
- \$2 billion for strategic infrastructure projects to stimulate job creation and improve long-term economic productivity; and
- \$1.1 billion over three years to support skills, learning and research.

The targeted spending in this budget or coming on stream this year, coupled with the tax cuts now flowing through the economy, are providing \$26 billion in economic stimulus – or 2.4 per cent of GDP – during a period of economic weakness. This is in addition to the significant monetary stimulus resulting from the 3.5-percentage-point decline in short-term interest rates this year to their lowest level in 40 years.

Fiscal Progress

As a result of our fiscal progress, Canadians face the current economic slowdown in much better shape than they did during the previous downturn in the early 1990s. At that time:

- interest rates were high and rising;
- the deficit was approaching \$40 billion a year; and
- the national debt was soaring.

Thanks to the hard choices made by Canadians and their commitment to restoring the nation's finances, the situation today is far different.

The results speak for themselves:

- 28 years of deficits were ended;
- four consecutive budget surpluses have been recorded, including a record \$17.1 billion in 2000-01;
- almost \$36 billion of Canada's national debt has been paid down;
- \$2.5 billion in annual interest payments have been freed up to be used for other initiatives;
- interest rates are at their lowest level in 40 years; and
- a \$100-billion tax reduction plan has been implemented.

How Can I Get More Information on Budget 2001?

Information is available on the Internet at www.fin.gc.ca.

You can also obtain copies of this brochure and other budget documents from the:

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Ce document est également offert en français.